Exhibit No. 4
Date 2-13-09
Bill No.

February 13, 2009

Senator Kelly Gebhardt, Chairman
Select Committee on Property Tax Reappraisal

Mr. Chairman and Committee Members:

Please consider the following comments in your review of the reappraisal of forest land for the 2009 appraisal cycle in Montana.

1. I was actively involved in the conversion to a productivity tax for forest lands in Montana in 1993 and still support the productivity tax as the best way to tax forest land. The landowners in 1993 were so supportive of a productivity tax that they approved a 10 cents per acre fee to be collected to be used for education and implementation of the tax. I would, also, like to point out that forest land taxation is controlled by statute and not administrative rule in Montana.

2. Having been involved in the appraisal and reappraisal work in 1994, 1997, 2003, and 2009, I have several concerns.

   a) A very key part of valuation is the stumpage value for saw timber. The law sets out a procedure to use DNRC timber sale values, logging costs and management costs to determine stumpage value. Because of changes that have occurred in DNRC procedures since 2002, there is considerable concern with the data used. In the past, a committee of forest owners were allowed to review data prior to enactment. A comparison is shown in Figure 4 attached. These stumpage values do not appear to reflect the greatly increased costs of managing, harvesting, and delivering logs to a sawmill.

   b) The capitalization rate has continued to drop from approximately 12.2 percent in 1994 to the current rate of 6.27 percent. A comparison is shown in Figure 7. On page 5 of the "Forest Land Revaluation Report 2009 Reappraisal Cycle," the second paragraph talks about the capitalization rate and the use of IRS values. There has not been opportunity to review this calculation as landowners have done in the past, and this does not follow the procedure outlined in 42.20.725 (8) (March 31, 2007)

   c) If you look at Figure #8, the "Net Timber and Agricultural Income" has dropped in both the 2003 and 2009 reappraisal cycle from the 1997 values. On the very best site, the change is 10.8%, yet forest land valuations have increased $893.85/acre (2152.92-1259.05); a 75 percent increase. Another reason to be concerned about values being used.

d) On lands I am familiar with in the Flathead, I am concerned about the volume being projected in growth. For example, on Class IV lands, they are projected to grow 212.5 board feet per acre per year, thus, in 80 years there should be 17,000 board feet per acre on this site. In the Flathead this just is not realistic.

3. Possible solutions might be:

a) Continue with current appraisal values until the stumpage values and capitalization rates are verified.

b) Change the law and set the capitalization rate at 8 percent.

c) Provide the information found in the "Forest Land Revaluation Report for the 2009 Reappraisal Cycle" to all land owners so they can determine the impacts on their land.

d) Begin the process to find a better way to capture forest land costs (logging management and landownership) and then revisit how they are used in the formula. It would be good to establish a working group under the Department of Revenue to do this task.

4. Forest land owners were first apprised of the significant changes in the productivity tax on December 29, 2008 by the Department of Revenue. For those of us who have been supporters of the productivity tax from the beginning, we have great concerns. In light of this, I wrote the Department in early January asking for some advanced information on timbered parcels in the Flathead. To date, I have not received an answer to my request.

Please consider my concerns and comments and contact me, if you have questions.

Sincerely yours,

Ronald Buentemeier

Ronald Buentemeier
2225 Dillon Road
Columbia Falls, MT 59912
406-862-3897

Figure 4

Stumpage Values Expressed in Thousand Board Feet (MBF)				
Valuation Zones	**1994**	**1997**	**2003**	**2009**
Zone 1	214.19	371.87	296.33	338.93
Zone 2	168.07	320.91	270.60	291.82
Zone 3	113.27	208.89	223.88	168.20
Zone 4	135.79	264.65	260.26	117.62
Zone 5	46.57	137.17	138.32	N/A

Figure 7

Capitalization Rates Expressed As a Percent				
Valuation Zones	**1994**	**1997**	**2003**	**2009**
Zone 1	12.19	10.31	8.40	6.27
Zone 2	12.15	10.37	8.44	6.29
Zone 3	12.33	10.22	8.45	6.27
Zone 4	12.11	10.19	8.40	6.27
Zone 5	12.01	10.14	8.39	N/A

In 1997, the legislature made several minor revisions to the law at the request of the department. One of those changes dealt with the calculation made in the forestland capitalization rate. The Northwest Farm Credit Services in Spokane would no longer calculate a 15-year farm loan rate for the DOR. Additionally, the Farm Credit Service changed its name from what had been specifically mentioned in statute. The department currently uses the interest rate that the Internal Revenue Service provides to the Federal Farm Credit Service through IRS Rule - Section 2032A, which is used to compute the special use value of farm real property.

Rule: 42.20.725

Rule Title: FOREST LAND VALUATION FORMULA

Department: REVENUE, DEPARTMENT OF
Chapter: REAL PROPERTY
Subchapter: Forest Land

Latest version of the adopted rule presented in Administrative Rules of Montana (ARM):

42.20.725 FOREST LAND VALUATION FORMULA

(1) Noncommercial forest land and nonforest land shall not be eligible for valuation as forest land. Standing and down timber on forest land shall not be separately valued and assessed.

(2) The valuation of forest land shall be as provided in 15-44-101 through 15-44-105 , MCA.

(3) The valuation of forest land shall be based on a five-year average of income, expense, and capitalization rate for the most recent five-year period ending in the calendar year immediately preceding the year published by the department in ARM 42.18.124.

(4) The department shall determine the forest productivity value for each forest valuation zone using the formula V=I/R, where:

(a) V is the per-acre forest productivity value of the forest land;

(b) I is the per-acre net income of forest lands in each valuation zone and is determined by the department using the formula, I = (M x SV) + NAI - C, where:

(i) I is the per-acre net income;

(ii) M is the per-acre mean annual net wood production;

(iii) SV is the per-acre stumpage value;

(iv) NAI is the per-acre agricultural related income; and

(v) C is the per-unit cost of the forest product and agricultural product produced, if any; and

(c) R is the capitalization rate.

(5) Net income (I) shall include stumpage value derived from the harvest of timber on state timber sales.

(6) The mean annual net wood production (M) shall be determined by using the following formula M=RA x MAI where:

(a) RA is the cubic foot to board foot ratio which converts cubic feet to board feet; one cubic foot will equal 4.1 board feet; and

(b) MAI is the arithmetic midpoint of each forest productivity site class in each forest valuation zone.

(7) Agricultural related income is the average net income for grazing livestock on forest lands in each forest valuation zone. Agricultural related income shall be determined by using the formula AI = GF x AUM x GC where:

(a) AI is the per-acre agricultural related income;

(b) GF is the average per-acre grazing fee on private land;

(c) AUM is the average per-acre animal unit months on forest land; and

(d) GC is the percentage reflecting grazing costs used by the department to value agricultural grazing land.

XXX (8) The capitalization rate is the 15-year annual average interest rate on agricultural loans as reported by the northwest farm credit services, agricultural credit association of Spokane, Washington, or its successor, plus the effective tax rate.

(9) The effective tax rate shall be calculated by dividing the total estimated tax due on private forest lands by the total forest value of those lands.

History: 15-1-201, 15-44-105, MCA; IMP , 15-44-101, 15-44-102, 15-44-103, 15-44-104, MCA; NEW , 1993 MAR p. 2970, Eff. 12/10/93; AMD , 1998 MAR p. 2505, Eff. 9/11/98; TRANS from ARM 42.20.167 and AMD , 2003 MAR p. 1888, Eff. 8/29/03.

Effective rule versions existed in ARM on or after March 31, 2007

MAR Notices	Effective From	Effective To	History Notes
	8/29/2003	Current	History: **15-1-201**, **15-44-105**, MCA; IMP , **15-44-101**, **15-44-102**, **15-44-103**, **15-44-104**, MCA; NEW , 1993 MAR p. 2970, Eff. 12/10/93; AMD , 1998 MAR p. 2505, Eff. 9/11/98; TRANS from ARM **42.20.167** and AMD , 2003 MAR p. 1888, Eff. 8/29/03.

Contact: (406) 444-2055 Fax: (406) 444-4263 Email: sosarm@mt.gov

Figure 8

1994 Net Timber and Agricultural Income				
Valuation Zones	Productivity Classes			
	1	2	3	4
Zone 1	78.74	61.17	43.61	26.05
Zone 2	62.22	48.44	34.66	20.88
Zone 3	42.53	33.24	23.95	14.66
Zone 4	51.04	39.90	28.77	17.63
Zone 5	16.91	13.10	9.28	5.46

1997 Net Timber and Agricultural Income				
Valuation Zones	Productivity Classes			
	1	2	3	4
Zone 1	137.52	107.03	76.53	46.04
Zone 2	119.70	93.39	67.07	40.76
Zone 3	77.98	60.85	43.72	26.59
Zone 4	99.30	77.60	55.90	34.19
Zone 5	52.21	40.96	29.71	18.46

2003 Net Timber and Agricultural Income				
Valuation Zones	Productivity Classes			
	1	2	3	4
Zone 1	105.8	81.51	57.21	32.92
Zone 2	96.70	74.51	52.32	30.13
Zone 3	83.02	64.66	46.30	27.95
Zone 4	98.24	76.90	55.56	34.22
Zone 5	51.31	39.97	28.63	17.29

2009 Net Timber and Agricultural Income				
Valuation Zones	Productivity Classes			
	1	2	3	4
Zone 1	118.68	90.89	63.10	35.31
Zone 2	104.44	80.51	56.58	32.65
Zone 3	64.11	50.32	36.53	22.74
Zone 4	46.23	36.59	26.94	17.30
Zone 5	N/A	N/A	N/A	N/A

end of tax year 2002.

From the earliest efforts of local assessors to 1993, Montana relied on hand drawn maps to assess commercial forestland. The forest tax system experienced a leap in technology when productivity forest maps were computer generated in 1993. However, the DOR still had to hand draw property boundaries for every landowner in the state and manually calculate forest and nonforest acreages. These maps have been manually maintained for the past 15 years.

The DOR will use a GIS to map agricultural and forestland and calculate land productivity for each land use The GIS contains numerous layers of information, including the state's cadastral database. The new ORION appraisal system is linked to information produced by this GIS. Virtually all the manual functions that DOR staff have conducted in the past to assess forestland will be eliminated.

The 2009 reappraisal will see the most significant changes to the current forest tax system since it was implemented in 1993. The forest productivity classification system has used four productivity grades based on cubic feet yield since its inception in 1993. The new forestland productivity estimates are expressed in Board feet and use five productivity grades. The new volumetric grade bands are also new for 2009.

2009 Forestland Productivity Grades

Productivity Grade	Board Feet Per Acre Per Year @CMAI
I	400 +
II	325 to 400
III	250 to 325
IV	175 to 250
V	100 to 175